

COST *and* MANAGEMENT

THE OFFICIAL JOURNAL OF

THE CANADIAN SOCIETY OF
COST ACCOUNTANTS & INDUSTRIAL ENGINEERS

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• EDITORIAL •

The Business Trend

In a recent article, Hon. Charles A. Dunning, Canadian Minister of Finance, claims that Canadian Industry will again begin to climb after a brief breathing spell, and attempts to give reasons for his optimism in this connection. He says, in part: "If it were not for the influence of factors outside our own borders, the Canadian analyst of current business conditions would find ample justification for a high degree of optimism in regard to the outlook for the coming year. That optimism would be soundly based on the demonstration of the remarkable resilience of the Canadian economy which the year 1937 has afforded. Despite a disastrous drought in the prairie wheat area, and the drastic declines in the stock market, the recorded statistics of Canadian industry and trade reflect a continuation of the consistent improvement which has been under way during the past few years."

Mr. Dunning, as Canadian Finance Minister, can be pardoned for his optimism, for, in fact, it is usual at this season of the year, to put on a bold front and to predict a banner year. That is human nature. But there is, in fact, in our opinion, good reason for optimism, despite "influences outside our own borders." The business recession continues in the United States, and while the recent speech of Mr. Roosevelt was much more conciliatory than some of the recent speeches of members of his government, and it may be that he will retreat 'ere long, it will probably be some little time before the two factions get together and attempt to solve their difficulties with fairness to both sides. True, the United States is one of Canada's best customers, and conditions in the U. S. undoubtedly affect us in Canada, but hardly so much as in past years. We notice, however, that U. S. purchases in Canada have declined sharply in recent months.

The outlook in Europe seems to be clearing somewhat, and this, also, will have its affect on Canadian business. There is, however, in our opinion, another matter which gives cause for optimism. Undoubtedly over expanded inventories, due to rapid price increases early last year, affected Canadian industry in the latter stages of the year 1937, but these inventories are being worked off at a rapid rate, and we predict that the "breathing spell" referred to by Mr. Dunning, will be of short duration, so far as Canada is concerned, and that very early in 1938 Canadian business will again be on the way up. If outward appearances mean anything, there is ample confidence in Canadian industry, and that is a good sign. The year 1937 showed a substantial increase over 1936 and, in fact,

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based on the year 1926, equals 100; 1937 showed 127.4, the highest figure since 1929. That, however, was in 1937, and we are now entering into 1938.

We do believe, however, that Canadian business has ample cause for optimism for 1938, and that by the time the first three months of the year have passed, there will be ample evidence that Canadian industry will once more assume its ascent.

A Balanced Budget

We noticed in Mr. Dunning's article, referred to above, reference to a balanced budget next year. Mr. Dunning claims that, had it not been for the disastrous drought experienced in certain prairie districts, it might have been possible to balance the budget this year. Mr. Dunning, however, feels that the estimated deficit of thirty-five millions (how lightly we speak of it) will prove to be a very conservative estimate and that, undoubtedly, next year the budget will be balanced. As a matter of fact, revenues showed a substantial increase in the first eight months of the year of over fifty-seven millions, and a surplus as of November 30 of thirty-eight and one-half millions. This does not mean, however, that the budget will be balanced this year, for, as Mr. Dunning points out, expenditures in the early months of the year are always heavier, and, correspondingly, revenues are lower. It does, however, lend colour to the belief that the estimated deficit of thirty-five millions may be substantially reduced, and this should be good news for everyone, not alone industrialists.

If the Sales Tax could be reduced it would be an added incentive for Canadian business to go on to new highs, but apparently there is little prospect of this reduction being put into force, at least this year. In fact, there is no great prospect of any tax reduction this year, but if the estimated deficit is substantially reduced and the budget can be balanced by next year, there is every prospect of substantial tax reductions in the following year. If the Dominion Government could reduce the Sales Tax when the budget is brought down this year, it would do much to keep up the business revival, but evidently Mr. Dunning means to balance his budget at the earliest possible moment, and no one, least of all industrialists, will quarrel with him on this account.

At Headquarters

The holiday season is now over and, with the advent of a New Year, we, first of all, desire to extend to all readers best wishes for a Bright and Happy New Year. This done, we come down to earth and get busy on a heavy program for the year 1938. First of all, the organization of the proposed new Niagara Peninsula Chapter is to be completed. Then, there is the attempt to form a Chapter in the London, Ontario,

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district, the Windsor, Ontario, area to be organized, Winnipeg and Vancouver to be revived, with the possibilities of Chapters in Calgary, Quebec City, Sherbrooke, Que., and Ottawa to be explored. A most ambitious program, certainly, and it will not all be accomplished before the annual meeting this year. The holiday season, coupled with inventories and an extremely heavy snow storm in the Niagara area just prior to Christmas slowed up the organization of the Niagara Peninsula Chapter, but we are very optimistic in regard to this proposed new Chapter. One meeting has already been held and another is being arranged for late in January.

Then London, and possibly one other Chapter, before our financial year closes on April 30. After that, the West, where indications show that there is sufficient enthusiasm for at least two and possibly three Chapters.

All in all, we expect to have another six or seven Chapters organized at the commencement of next year, with a total membership more than doubled. Optimism? Certainly! Why not? We have a real Society, a service to render to our members, which we are trying our best to do, increasing interest in our work on all sides and a chance to make our Society the best of its kind in existence. Our aim is to increase the membership by fifty per cent. by the time the annual meeting rolls around, and we believe it can be done.

Certain new features have been incorporated in Cost and Management recently, and we draw your attention to the fact that these can only be continued through the co-operation of members. Correspondence is solicited, questions and answers for the Forum Section also. Further, applications for positions will be published when required, and we would also draw to the attention of member firms that situations vacant can be published in this magazine without charge. Where can one obtain the services of a more competent cost or industrial accountant than through the medium of our Society and its publication? Let us hear from you often. If you have criticism to make, let it be constructive; if there is anything you desire know and we can help you, let us know and we will endeavour to serve you.

Membership

Membership continues to grow, and while no new members are shown in this issue, due to lack of space, several have been secured and prospects are being interviewed almost daily. So long as we continue to grow we have nothing to fear. Members who know of prospects should notify the Secretary-Manager at once, and immediate steps will be taken to have them become members. Each member can help in this regard, and we earnestly solicit your help, and it is being done. As an example, we recently interviewed a prospect regarding membership, and a few days later received the application form, together with a cheque for the fees, and, in addition, a list of the names and addresses of six prospects in his

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district. That is co-operation and enthusiasm for you. Why not do something of the kind yourself? You must know of at least one prospective member in your district.

Taking Stock

At this season of the year, it is usual for trading companies to "take stock," in order to find out what progress, if any, has been made in the past year, and in order, also, to set the house in order in preparation for another year. We feel, also, that it is incumbent for us, both as individuals and as a Society, to take the same action and for the same purposes. As individuals, have we done the job we are supposed to do in the best possible way? Have we made progress on our jobs, or have we been content simply to let matters slide and to carry on from day to day without thought or preparation for "to-morrow"? Have we increased our knowledge and our value to those who employ us, or are we in a rut?

These are questions we should ask ourselves now and, if not satisfied with the answers, we should take immediate steps to improve the situation.

So it is with our Society. Have we made progress during the past year? Have we given our members the service they are entitled to? Have we increased in prestige and in membership? Have we done anything to elevate our profession? Have we, as individual members of the Society, done anything in the way of boosting it, by obtaining new members, by attending meetings regularly and by taking a keen interest in the welfare of the Chapter we belong to? Or, are we content to let George do it? So far as the Society is concerned, we are pleased to be able to report progress. For some time, members slipped away from us for various reasons, but we are pleased to be in a position to state that the rot has been stopped, that, instead of losing members, we are gaining, and gaining rapidly.

Fifty-eight new members have been admitted to the Society since September, one new Chapter has been formed, and others are in process of formation. We believe that our members have been given good service, but this service can and will be improved. It can only be improved, however, by the wholehearted co-operation of the members, and if you, as an individual, have not done your part in the past year, it is well that you "take stock" now and decide upon something you can do in the New Year.

Not all that could be done has been done in the year just passed, but if we make up our minds that 1938 is to be a banner year in the history of our Society, we can do it. This writer believes that we will do it, and that this year will be the best the Society has ever experienced. If we make up our minds that we owe a duty, not only to ourselves and to those who employ us, but to our society, then we shall not go far astray in this new year. May 1938 be the best each one of us has ever experienced. May it be one of health and prosperity for all, and that this year be the year we expect it to be in the history of our Society is the sincere wish of your Editor.

Literature Received

The Problem of Cost Accounting for Selling and Distribution.

The Institute of Cost and Works Accountants.

A paper read at the National Cost Conference of the Institute of Cost and Works Accounts in London, Eng., October 1st., by Mr. S. C. Tyrell, F.C.W.A. A most interesting article dealing with the many problems of distribution and selling costs.

Cost Accountancy in the Local Government Service.

The Institute of Cost and Works Accountants.

A most enlightening article read at the National Cost Conference of the Institute of Cost and Works Accountants, September 30th, by Mr. W. H. Boddington, B.Com., F.W.C.A., A.I.M.T.A., A.C.I.S. Deals, of course, with municipal cost accounting, but is well worth reading by all cost accountants.

Will Your Cost System Stand Up Under the Test of Rising Prices?

The Institute of Cost and Works Accountants.

Here are two papers read also at the National Cost Conference; one is by Mr. F. W. H. Saunders, A.C.W.A., and the other by Mr. Frank Leadbetter, A.C.W.A., A.C.I.S. Both are practical cost accountants, and these papers should be read by all cost accountants. These men are engaged in widely separated industries and both evidently recognize the need for something other than rule of thumb methods in determining costs.

Cost Standards and Budgets.

National Association of Cost Accountants. November 15.

Standards for Manufacturing Expense.

National Association of Cost Accountants. November 15.

Despite the numerous times these subjects have been treated in both addresses and written articles, the subject has by no means lost its appeal to cost and industrial accountants. One cannot learn too much and both the aforementioned articles shed new light on much in connection with the subject of standard costs and budgets.

Inventory Valuation and Business Profits.

The Case for a Stabilized Basis.

The Case for a Cost or Market Basis.

National Association of Cost Accountants, December 1.

Here are three articles all concerned with Inventory Valuation, which is surely a live topic at present. Much has been both said and written on this very controversial subject and here are three articles which contribute much to a very puzzling problem.

The Control and Valuation of Stores.

The Canadian Chartered Accountant. December.

Another valuable contribution to the problem of stores control and evaluation by Cecil A. Ellis, C.A. Deals not only with stock control, but advocates the average price method of evaluation.

LITERATURE RECEIVED

The Vegetable Oil Industry and Some of Its Peculiar Accounting Problems.

N. A. C. A. December 15.

By Douglass M. Barrows, Assistant Secretary and Chief Accountant, Eldorado Oil Works, San Francisco, California. If one is inclined to take his own problems too seriously, the reading of this article should act as an antidote. Mr. Douglass stresses the necessity for delving into things if one desires to know. A most interesting article, and one entirely different.

Classification and Allocation of Expenses.

The Australian Accountant. November.

One of a series of lectures on Retail Accounting Procedure to the Commonwealth Institute of Accountants, Victoria Division, Australia, by C. K. Kelly, A.F.I.A. Deals mainly with classification and allocation of expenses in the retail trade, but is a very complete article and is not alone for those engaged in the auditing field.

The Audit of Sharebrokers' Accounts.

The Chartered Accountant, in Australia. November.

By Herbert Taylor, F.C.A. (Aust.). A very complete article, interesting especially for those interested in this field.

A Brief Survey of a Complete Mechanized Accounting System.

The Accountant. December 4.

By W. C. C. Hughes. While brief, this article describes a complete mechanized accounting system for the accounting records of a distribution company having a turnover of between \$750,000 and \$1,250,000 per year, so as to produce to the management a finished trading statement at the end of every month.

Works Plan of International Harvester Co.

Manufacturing and Industrial Engineering. November.

An address given by F. M. Morton, Vice-President of the International Harvester Co., Hamilton, Ont., before the Conference on Industrial Relations at Kingston, Ont. This article describes the works plan of the company, showing the composition of the Works Council, Pension scheme, Vacation Plans, Apprenticeship Training, etc.

Northern Electric Employee's Benefit Plan.

Manufacturing and Industrial Engineering. December.

Describes in detail the Pension Plan of the Company and deals with sickness, disability and death benefit plans.

Accounting System for a Subscription Book Company.

The Canadian Chartered Accountant. January.

A complete system for a Subscription Book Company, by Merrick B. Davidson, C.A.

Audit of Brokerage Houses.

The Canadian Chartered Accountant. January.

Describes a system in detail devised to reduced the routine of auditing Brokerage House accounts. An extremely interesting article of particular interest to those engaged in this field.

COST AND MANAGEMENT

Analysis of Financial Statements.

The Canadian Chartered Accountant. January.

A very complete article, by Professor Phillip H. Hensel, University of Western Ontario, London, Ont., and of real interest to all accountants and executives.

Standard Practice in Auditing.

By W. J. Black. Incorporated Accountant.

A research committee of the Society of Incorporated Accountants and Auditors in Great Britain was recently set up for the encouragement of research into all matters connected with the work of the professional accountant. The first subject selected was that of "Standard Practice in Auditing," and this booklet is the result. Mr. Black, in collaboration with Mr. R. N. Barnett, prepared a preliminary manuscript, which was then submitted for criticism and amendment to other members of the Committee, and, so, this booklet really represents the composite experience of the whole Committee. Mr. Black deals with his subject in a thoroughly practical manner, while Mr. Barnett's part was to provide a memorandum dealing with the use of machines in accounting. A thoroughly practical booklet and well worth reading by any accountant.

The Valuation of Inventories.

The Journal of Accountancy. January.

Another valuable contribution to a vexed question, and is text of a report to the Council of the American Institute of Accountants by the special committee on inventories of that body.

Uniform Accounting Procedure As An Aid in

Reducing Retail Operating Costs.

N. A. C. A. January 1.

A very valuable article to those interested in Retail Store Accounting. By H. I. Kleinhaus, General Manager, Controllers' Congress, National Retail Dry Goods Association, New York.

Departmental Accounting in Drug Stores.

N. A. C. A. January 1.

Deals with a survey of Drug Store Accounting in St. Louis, and is of real interest to those interested in Drug Store Accounting. By Nelson A. Miller, Assistant Chief, Marketing Research Division, U. S. Dept. of Commerce, and W. H. Meserole, Business Specialist, Marketing Research Division, U. S. Dept. of Commerce.

FORUM SECTION

To The Editor,

Dear Sir,—

In last month's issue of "Cost and Management" you published a request from Company "G" for information regarding the use of drawing numbers. I do not know what type of commodity the company manufactures, or exactly what their trouble is, but perhaps the following may help them: Complete models are shown on master drawing, with numbers starting at number 1, and not going beyond the hundred numbers. On these drawings are listed all parts which go to make up the complete article, and the numbers of these single parts, or assemblies, commence at 1,000. On the separate drawings for these single parts is shown the model, or completed commodities, on which the single part is used. Thus, it is possible, by referring to the drawing of the single part, to find out at a glance on what models this part is used, even if it is used, as is often the case, on several different models. Our experience with letters has not proved satisfactory, but the above method, while simple, has proved to be very efficient. This system is used in the manufacture of machinery which has many obsolete models for which parts are constantly built and supplied. We trust this information may help Company "G." —COMPANY "H."

Dear Sir:

I am late in my reading of magazines, and I just came across the October issue of Cost and Management containing an inquiry for sales invoices sent with parcels to customers.

In case it is still time to help a member, you will find enclosed a sheet of the procedure which we follow and which gives us satisfaction.

Yours very truly,

COMPANY J.

1. A copy of the Sales order is sent to the Shipping Department.
2. Goods delivered by the warehouse to the Shipping Department to be shipped, are checked on the sales order; at the same time that the clerk checks the goods on the sales order, he calls the information to the invoice clerk who is always near him and who makes the invoice on the billing machine.
3. The invoice after being made is entered into the shipping record from which a parcel or case number is obtained.
This clerk at the same time makes the stickers or tags to be attached to parcels.
4. Then the copy of invoice for the customer and the copy for the packer are handed to the packer with the goods; the other copies of invoices are sent to the shipping office to be checked as to extension and addition and any error corrected before the customer's copy is enclosed in parcel.
5. The packer checks the goods packed with his copy of invoice and sends it back to the shipping office. The customer's copy of invoice is enclosed into the parcel or case.

Chapter Notes

Montreal.

Montreal Chapter will hold its next meeting on January 14, when Mr. Roland Swift, Special Field Auditor, Department of National Revenue, Ottawa, will address the members on "Depreciation as it Affects Income Tax," surely a topic of interest to all accountants.

On January 28, the Chapter members will debate with members of the Montreal branch of the Canadian General Accountants on the subject: Resolved, "That a mutual understanding between management and labour is conducive to ultimate cost reduction." Members of our Montreal Chapter will take the affirmative side, while those of the C. G. A. will take the negative aspect of the case. Both these meetings should prove to be of real interest, and it is hoped that a large attendance will be present on both occasions.

Toronto.

The next meeting of the Toronto Chapter will be held on January 25, at Eaton's College Street "Round Room," when Mr. Paul Kellogg, of Stevenson and Kellogg, Management Consultants, Montreal, and who is a prominent member of the Montreal Chapter, will speak on "The Mathematics of Management." This will be a joint meeting with the Hamilton Chapter, and members of the Kitchener Chapter, and also members or prospective members of the proposed new Niagara Peninsula Chapter, are also invited. It should prove to be a banner meeting.

Hamilton.

Hamilton members will proceed to Toronto in force by bus for the joint meeting with the Toronto Chapter on January 25, and if the attendance on the occasion of the last bus trip is any criterion, a large attendance will result. The Hamilton members are somewhat jealous of their reputation for having the largest average attendance at meetings in proportion to membership of any Chapter, and are not likely to fall down on this occasion.

Kitchener.

The next meeting of the Kitchener Chapter will likely be held on January 27. The speaker and subject has not yet been decided, but it will undoubtedly be interesting, and it is to be hoped that a large attendance will result. Bad weather cut down the attendance at the last meeting, when Mr. W. T. Brickenden of Toronto gave a delightful talk, but the prospects for the attendances at coming meetings are very bright.

Niagara Peninsula.

A second meeting of this proposed new Chapter will likely be held on January 20, and here again neither the speaker or the subject have yet been definitely settled. It may be possible to appoint provisional directors of this new Chapter at this meeting and complete a program until the end of the season. Let us hope so.

Correspondence

To The Editor,

Dear Sir,—

On October 29th, 1937, Mr. R. A. C. Henry, B.Sc., general manager of the Beauharnois Light, Heat & Power Co., Ltd., gave a talk on Hydro-Electric Power Costs, before the Montreal Chapter, Canadian Society of Cost Accountants and Industrial Engineers.

As I am particularly interested in this problem of power cost, I felt that I could not miss this opportunity of learning more on this subject. After Mr. Henry had delivered his lecture I could not understand how the figures given by him could be so high. For, dealing with "Bare Bones" Capital cost, Mr. Henry summarized those costs in terms of effective H.P. at the premises of the ultimate consumer as follows:

| Generation: | Range |
|---|----------------|
| Cost per H. P. effective capacity at generating station | \$125 to \$250 |
| Cost per H. P. effective capacity at consumer's premises | 144 to 288 |
| Transmission: | |
| Cost per H.P. effective capacity at generating station | 8 to 25 |
| Cost per H.P. effective capacity at consumer's premises | 10 to 30 |
| Distribution: | |
| Cost per H.P. effective capacity at consumer's premises | 125 to 250 |
| Total "bare bones" cost per H.P. effective capacity at consumers premises | 279 to 568 |

Mr. S. L. R. Hollis, A.M.I., Mech. E., A.M.I.E.E., has written a very interesting book entitled "Water Power Around the World" (1930). This engineer does not hold the same views as Mr. Henry on power costs. Discussing the conditions of the Lower St. Lawrence Basin, Mr. Hollis makes the following statement:

"It is clear that in considering general water power development over this area, it is the average and not the individual cost of development that should be considered. Particulars of the capital invested in the Central Electric Power Station industry have been systematically collected by official census since 1917, so that this service has become thoroughly organized and dependable, and it furnishes average figures.

"For the year 1923, the census figures of capital invested in Hydro-Electric Installations were analyzed under the principal divisions, with the following results:

| | Dollars per turbine Horse-power | |
|--------------------|------------------------------------|-------|
| Development | \$121.70 | 73.4 |
| Transmission | 22.60 | 13.6 |
| Distribution | 21.60 | 13.0 |
| | <hr/> | <hr/> |
| | \$165.90 | 100.0 |

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"It is thought the average cost for development is fairly well established and will not vary greatly for a good many years."

This total **average capital cost** of \$165.90 per turbine H.P. is very much less than the "bare bones" capital costs of \$279 and \$568 given by Mr. Henry. Is it possible that a "bare bones" cost can be higher than an average figures? Mr. Henry was unable to enlighten us on this point.

When asked to what region his "bare bones" capital cost figures applied, Mr. Henry answered: "America"—a rather vast territory for "bare bones" cost.

Mr. Henry could not give the percentage of loss in the transmission of power from Beauharnois to Montreal. This was most surprising, in view of the fact that Mr. Henry is the managing director of the Beauharnois Light, Heat & Power Co. Ltd. I stated that, in certain quarters, it was contended that, owing to the short distance between Beauharnois and Montreal, the loss in transmission of power, over this distance, is very small. Mr. Henry did not contradict this statement. How, then, could he justify a loss varying from 15 to 25 per cent. when discussing "bare bones" cost?

Mr. Henry would not state the percentage of depreciation that he, as an engineer, would figure on the wasting assets of public utility companies, but he emphasized the necessity of providing for depreciation. Companies that would neglect this important factor would, said he, sooner or later, pay the penalty for such omission. I remarked that I did not know of any company having failed to provide necessary depreciation. The tendency has been rather to make excessive appropriations as reported by the Lapointe Commission.

The cost of transmission established by Mr. Henry was only an arbitrary figure. Since when can an arbitrary figure be considered a cost figure?

It is very unfortunate that Mr. Henry has been unable to give definite answers to questions put to him.

Is it possible that Mr. Henry may have only prepared estimates in which he has set out all the items he could think of, and having added them up, that he has multiplied the answer by two, thus following the advice of a successful man? So, estimates multiplied by two would have become "bare bones" cost! Can this be the explanation of Mr. Henry's figures?

If, at any future date, Mr. Henry should give another lecture before our Society, I would suggest that he furnish us with a Balance Sheet and Operating and Profit and Loss Accounts, corroborating his contentions. Had Mr. Henry followed this procedure before giving his recent lecture he would have detected his errors and saved this *mise au point*.

We hope that the new Electricity Commission will establish a uniform accounting system that will facilitate the determination of capital and operating cost of generation, transmission and distribution of power.

I am sure that the citizens of the district of Montreal would be greatly interested in knowing the cost of producing power at Beauharnois, which is considered one of the most economic plants. Senator Perrier, a French

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expert, has stated that, to find a central station comparable to that of the Beauharnois, one would have to go to Soviet Russia.

Trusting that you have no objection to publish this *mise au point*, and thanking you in anticipation, I remain,

Yours truly, —ERNEST ROBITAILLE, C.P.A., C.G.A.
266 St. James St. West, Montreal, P.Q.
Member of the Montreal Chapter, Canadian
Society of Cost Accountants and Industrial
Engineers.

To the Editor.

Dear Sir:

May I congratulate the Hamilton Chapter on the very instructive type of program prepared for the present season and also on the high attendances at these meetings. In past years many very instructive meetings have been held but I do not remember a better meeting than that held early in December when Mr. Detwiler of Buffalo spoke on "The Presentation of Cost Information to Foremen." The speaker covered the subject in a most comprehensive manner and I, in common with many other members received a vast amount of very valuable information from this meeting. It was a practical subject, dealt with in a very practical manner and the information I gathered from this talk proved well worth my membership fee for the whole year.

Here was no theoretical subject but a practical subject delivered in a practical and straight from the shoulder manner by a speaker who knew his business. It was one of many very fine meetings I have attended in recent years.

Yours sincerely,

"TEN YEAR MEMBER."

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Signs of the Times

On the first of the present year, the Canadian Kodak Co., Ltd., of Mount Dennis, Ontario, put into effect a five-day week and vacations with pay for general factory employees. For all general factory employees hired on a full time basis, the plan provides vacations of one week for those of between one and five years' service. Vacations of two weeks are provided for those with over five years' service. Hourly rates of pay will be increased sufficiently to enable general factory workers to receive approximately the same weekly earnings as previously received for a longer working week. Fairly recently, such a move might have been described as radical and solialistic, but it is now a sign of the times. The Canadian Kodak Company, however, are to be congratulated on which, of itself, will undoubtedly pay dividends to the company in many ways in the future.

SITUATIONS VACANT

Wanted, an experienced Time Study man, with preference to one with knowledge of cost accounting in the textile industry. The position is paid for at a very reasonable salary and there is every prospect of promotion for the successful applicant, who should be about thirty years of age and able to speak both French and English. Box 19, "Cost and Management."

Cost Accountant, good opening in manufacturing plant in Montreal for man with machine shop and foundry experience, who understands shop systems and their application, and who is fully grounded in cost accountancy. Give full particulars including age, salary desired, present employment, experience and references. Please do not apply unless you can meet conditions. All applications strictly confidential. Apply Box 25, "Cost and Management."

SITUATIONS WANTED

Industrial Accountant, with many years' experience as Accountant, Cost Accountant, Factory Manager and Business Manager, seeks position where he can use such training and experience to advantage. Apply, Box 17, "Cost and Management."

Young man with Collegiate Institute, Normal School and University education, and with experience in teaching, general and public accounting, in addition to cost accounting, is at present disengaged and seeks permanent position with sound organization. Apply, Box 18, "Cost and Management."

General accountant, with several years' experience in Public Accounting and Auditing work, with some experience in Costs, preparing for a C. P. A. degree, desires position with opportunity for advancement in Commercial or Manufacturing concern, preferably, but not essentially, in the vicinity of Hamilton. Apply, Box 20, "Cost and Management."

Accountant, with many years' experience as Accountant, Office Manager, Cost Accountant and Auditor, seeks position vicinity of Toronto or Western Ontario. Experienced in Time study work with numerous systems, and fully capable of installing cost or accounting systems. Position sought is one in which this experience can be used to advantage with well organized and sound company. Apply, Box 21, "Cost and Management."

Cost Accountant, with eight years' experience, seeks change. Experienced in Foundry Costs, Niagara Peninsula or Hamilton district preferred, but would consider position elsewhere in Ontario. Apply, Box 22, "Cost and Management."

Young man, aged twenty-seven, with varied experience as Accountant and Cost Accountant, seeks position in Ontario. Well experienced in Cost and Financial Statements. Apply, Box 23, "Cost and Management."

Cost Accountant, with three years' valuable experience in Cost Accounting, Payroll, Waste Control, Time studies and Job Analysis in Textile Trade, is open for position with good company where there is opportunity for advancement. Apply, Box 24, "Cost and Management."

Happy New Year

President George T. Bowden is, unfortunately, still ill at his home in Montreal. but is making progress toward recovery, and it is the sincere and earnest wish of all that he will soon be back at his duties and in good health. Mr. Bowden, in a recent letter from his home, sends his greetings to the members, which are genuinely appreciated. He says, in part:
"Dear Mr. Dawson,—

Please convey to the members of all Chapters of the Canadian Society of Cost Accountants and Industrial Engineers, my best wishes for a Happy Christmas, and that Nineteen Hundred and Thirty-eight will be the best year in the history of the Society. I very much regret that, owing to my illness, I have been unable to take my proper place among them, but I feel confident that you and Mr. Lane will handle the situation even more competently than I."

May we, on behalf of the officers and members of the Society, say to both Mr. and Mrs. Bowden, very simply but sincerely, HAPPY NEW YEAR.

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Cost Accounting For Distribution and Selling

By

S. C. TYRRELL, F.C.D.A.,
Cost and Works Accountant,
Parke, Davis & Co., Hounslow, Middlesex.

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1. No one will deny that it is the exception rather than the rule to find any serious attempt to cope with the problem of Sales and Distribution expenditure, with the same efficiency as is commonplace where Production Costs are concerned.

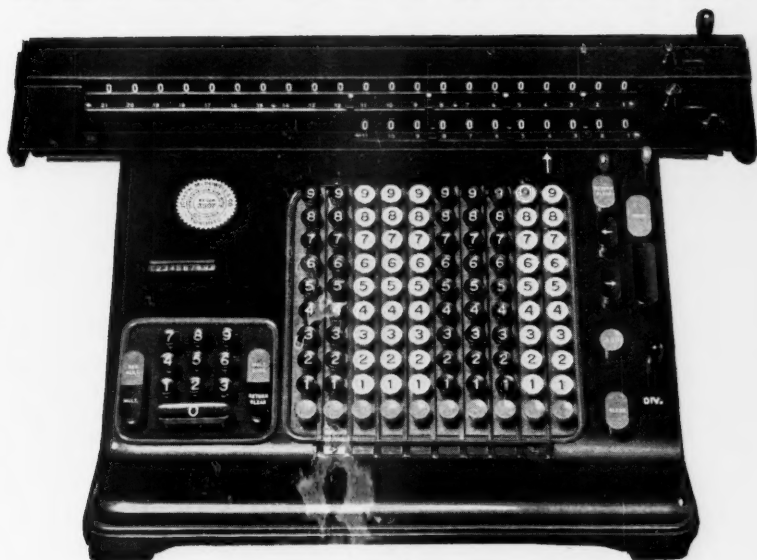
2. No one will deny that in a considerable proportion of commercial enterprises to-day the gap between manufacturing cost and net selling price is as great as, and in many cases greater than, the total manufacturing cost of the articles sold.

3. It should, therefore, be admitted that the field for investigation is likely to be at least as fertile where the functions of Selling and Distribution are being exercised, as it has undeniably proved to have been in the past, where the task of analysing and controlling the facts concerning the function of production has been undertaken by members of our profession.

4. There is a particular type of business from which the Cost Accountant—nominally at all events—appears to be excluded to-day, i.e., the merchandising or factor type of business. Operating between the manufacturer and retailer, this in some industries to-day represents in independent form the problem which confronts many organizations as part of their own activities. Were Cost Accountants as well equipped to deal with the cost problem in this type of business as they are to deal with manufacturing or service costs; were the qualification conferred by membership of this Institute known to include a knowledge of the technique of this problem, another field of usefulness would open to our members. Here is the opportunity for the Cost Consultant whose knowledge of this problem would place a premium on the services he could render to many a business at present satisfied with out-of-date methods and purely financial accounting.

5. There exists a school of thought in Management—and accountancy has its adherents—which claims that the investigation of selling and distribution costs is uneconomic, impracticable and undesirable. The subscribers to this creed are probably the lineal descendants of those gentlemen whose ultra-conservatism and lack of perception in days gone by denied the practical uses of cost accounting, which to-day are usually accepted without question.

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6. It is within the memory of many of us that the simplest system of cost accounting was tolerated as a scarcely justifiable extravagance, whilst the extension of cost investigation in any new direction in the factory was condemned as an imported fad. These things, we were told, might be justifiable in the large mass production organizations, but for ordinary every-day business concerns the practical experience of years of manufacturing was of greater use than any new-fangled cost system. Yet—to-day finds practically every concern engaged in production employing cost systems, based on the principles which have been evolved as a result of little more than three decades of cost accountancy, as we understand the term.

7. Is it too much to assume that history will repeat itself, and that the Cost Accountant will prove himself able to indicate economies and assist efficiency in the field of selling and distribution, in the same way and to at least as great a degree as he has demonstrated himself capable in the other fields he has so far seriously tackled? Unless we grant this point, we assume that the production or factory manager is a less efficient officer than his brother at the sales and distribution end of the business—a state of affairs which is as illogical and unreasonable as it is unlikely.

8. What, then, is the reason for the prevalent reluctance of Management to allow the Cost Accountant to set to work on that section of the cost problem concerned with expenditure after the factory stage is concluded?

9. Apart from the innate conservatism which is so strong in the mature mind usually found in control of an old established business with tradition entwined with policy, there is a marked unwillingness to admit that any use can be made of a cost system for the selling and distributing functions, even if it can be proved to be a practical method of cost finding. "What use to me," exclaims the General Manager, "will it be to discover that my gross profit is subject to a number of charges representing operations which I well know are indispensable? How much better off shall I be if I can be told that individual lines or groups of lines are earning profits which are greater or smaller than the average figure shown by my present overall statistics?" he asks.

10. The answer is simple and forcible. Knowledge is Power, and no normal business man possessed of detailed knowledge of his selling expense incidence would, or in the long run could, refrain from utilizing the information to the permanent benefit of the profit-earning capacity of the enterprise entrusted to his care.

11. Further, it cannot surely be denied that an effective set-up of cost accounts covering the selling and distribution activities of the business must provide an insurance against the dislocation and disruption of thought, consequent on unanticipated interruption of the tenure of office by the management personnel. Logicality and continuity of policy and administration can be more reasonably assured where basic information is available on standard lines, and where comparative costing over periods governed by ascertainable conditions is at the disposal of the authorities. How often

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does the efficacy of present day business policies depend on the mental storage of facts and experience confined to the photographic brain cells of one man in an organization! The picturesque imagery of the ancient East describes how the mantle of inspiration and power of the old Hebrew prophet fell upon the shoulders of his life-time assistant, but the mantle of the General or Sales Manager does not pass by way of the supernatural. It is the system of cost control in the hands of the scientific, but practical-minded Cost Accountant, which should provide the materialism of the prophet's mantle where Management is concerned.

12. No man, we are rightly told, is indispensable; but the absence of adequate cost studies and records can make the passing—either temporary or permanent—of key men, so inconvenient as to give definite colour to the opinion that this statement is incorrect.

* * * *

13. At the outset I think we should candidly admit that much of the reluctance to face the effects of cost accounting in a field which is comparatively new to the majority of accountants is due to the enervating influence of the relative success attending the policy of *laissez-faire*. (One can almost suspect the age and calling of the student who, when asked to define *laissez-faire*, is reported to have punned it into "lazy-fare.")

14. I am by no means sure that we ourselves are altogether innocent of a desire to shirk the difficulties and awkward situations which we know lay in the path of the man who resolutely tackles this phase of his job.

15. The Sir Galahad of twenty years ago thinks twice and thrice ere he dons his somewhat rusty armour and sallies forth to meet the problems, which the realism of middle age has shorn of the glory perceptible so clearly through the eyes of his youth. It is hard to recapture the vision of the Grail when years of comfort have dulled the inner eye, and the leap into the saddle is not so blithely accomplished when maturity has taken toll of agility in the process of acquiring wisdom and judgment.

16. It is none the less imperative that we, as individual members of a professional body, should face the stark fact that unless we are able as individuals to present our employers—either actual or potential—with a well-forged weapon for dealing with the question of selling and distribution cost, a generation will arise that will know little and care less for our achievements in the past. It is not possible for us to stagnate. We must either progress or retrogress, and progress—the only conceivable movement for us—necessitates constructive and, if necessary, revolutionary thought and study.

17. Revival is impossible without interest. "Where there is no vision the people perish." Truer words never have been penned, but when we examine our inspirations and aspirations let us be honest and also discerning. There is a vast difference between prophetic vision and feverish imagination, and it is to this end that the Council conceives it a duty to institute the deliberately planned study of a problem which should be exercising the minds of all who have at heart the progress of the Institute—dependent as it is on the sum total progress of its corporate members.

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18. It is significant that great interest in the subject of selling and distribution cost accounting is being exhibited by the manufacturers of mechanised accounting aids. This can, of course, be waived aside as being an interest purely actuated by the hope of extended sales, but it is far more reasonable to assume that this office equipment industry has rightly interpreted the inevitable trend of accounting procedure in the direction of selling and distribution activities.

19. It is clear that in the last resort the question of relative values must determine the extent to which the technique of this subject is developed in individual concerns, and there must be a decision on each case made by Management, and based on facts supplied by—whom? If we, as Members of the Institute of Cost and Works Accountants, have no established methods, or practicable theories available, or should we be found lacking even to the extent of embryonic study of the problem, the question will be decided without our aid—and when that occurs we need no longer prate of revival, we shall require to review the improbability of resurrection.

20. I do not believe that the absence of enthusiasm on the part of those who should be in a position to utilise the information made available under a system of cost accounting for the selling and distribution functions of business, provides justifiable excuse for leaving the problem to solve itself. Taken as a whole it is just to say that the past fifteen years have seen our Managements becoming progressively more cost-conscious. It is the present limitations to that cost-consciousness which form the barrier against which practising Cost Accountants at first fret and fume, but tend ultimately to recline in an attitude of complacent somnolence.

21. It is our business first to free ourselves from those limitations of ideas, and to become genuinely cost-conscious in respect of sales and distribution activities—whether or no we can at the moment see a practical use for the extension of costing in our own line of business. We must have a working knowledge of our subject before we can decide on the field of its usefulness, and that knowledge must be something more to us than a vague notion that in "some industries where conditions suit, some fellows have got some sort of a scheme running on lines somewhat as follows," etc.

22. To-day, therefore, you are offered a logical breaking down of this subject into sections which will permit of profitable and protracted study, viewed from the angle of both Cost Accountant and Management. My purpose is to work through the thirteen headings given hereunder, indicating the field we intend to explore during the next two or three years.

23. It is on the question of detailed study that discussion in Conference here will help us during the coming session. There will be other viewpoints which will possibly modify the proposed plan, either as to sequence or subject matter, and you will be doing the greatest service to the progress of the Institute by constructive criticism of the method of study I am putting before you now.

COST ACCOUNTING FOR DISTRIBUTION AND SELLING

I.—GENERAL PRINCIPLES IN RELATION TO:—

(A) Domestic Sales Policy.

24. How does the nature of the business affect the question from the angle of the catalogue or sales list? To what extent is it desirable to isolate costs in relation to products and functions?

25. Is the relation between the total cost of manufacturing the product and the sum total of expenditure involved in effecting the Sales such as would indicate the need for greater or less detailed cost machinery?

26. How is the sales list divided, if at all?

27. Has "trade custom" any strong influence on price fixing?

28. Is there a Manufacturers' Association connection which may affect policy in spite of cost findings?

29. Would the Manufacturers' Association connection indicate any particular direction or lines for developing the cost system?

(b) Foreign Sales Policy.

30. On what principle is the Export Sales policy based:—

(i) To dispose of production surplus to Home market needs?

(ii) Fundamental item of the total profit volume concerned with same products as Home market, or

(iii) Manufacturing special products for Foreign markets as distinct from Home Sales?

31. How far will it be necessary in view of this to link up different markets for comparison of charges for various activities and services?

(c) Conditions in the Production Plant.

32. Can Sales policy regulate results to accord with the factory conditions of output? What information must the cost system provide to assure the most effective liaison between Sales and Works Management?

33. What influence would correct Selling and Distribution cost information have on policy where the question of idle facilities is concerned, e.g., new lines, special offers, manufacturing for the trade, etc.?

(d) Conditions within the Industry.

34. Would it be beneficial to have cost data available which would allow of comparative costing for Selling and Distribution throughout the trade or industry?

35. Is it possible or probable that more economic working would result if knowledge could be pooled concerning the relative costs of marketing different articles, types of products, packages, etc., in different markets and under differing conditions?

36. Would the interests of the organisation be best served by organising cost accounts on territorial, or price list bases, or a judicious compromise between the two?

(e) Conditions within the State.

37. Does the question of State regulation enter into the Selling and Distribution conditions? Where the State is a buyer, are results from ad hoc enquiry sufficiently reliable? Would the added influence of a proved cost accounting system strengthen the concern's case against the "profiteering enquiry?" What value will the Selling and Distribution cost accounts

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possess in connection with policy modification in approaching the taxation position?

(f) World Economic Forces.

38. In dealing with slump periods, trade cycles, dumping activities, international price cutting, or price fixing, will sound cost accounting for Selling and Distribution activities place individual concerns, or trade associations, and the State as a whole at an advantage?

39. Is ad hoc enquiry or statistical estimation reliable enough to provide against loss of earnings due to changes in conditions in other industries, such as road transport, railway freight schedule changes, coal mining conditions, oil production, etc., or changes due to the influence of dearer or cheaper money, credit restriction, devaluation, deflation, exchange fluctuation, import restrictions, tariff barriers, etc.?

II. UNITS OF SELLING AND DISTRIBUTION COST IN RELATION TO DIRECTIONS OF INVESTIGATION

(a) The individual Product.

40. What unit of measurement will be acceptable and efficacious from the Sales, Management and Accounting viewpoint? How many items in the Sales List will require to be treated individually? To what extent do trade conditions, competition, Management policy or other factors dominate the selling conditions for individual products? To what extent will it be an advantage to attempt the calculation of individual net profit margins?

(b) Classes of Products.

41. As alternative to individual line costing how far does the Sales Volume lend itself to grouping and classification? Is it possible to adopt demarcations which will divide the Price List into sections which are subject to common conditions, both as to Selling and Distribution? Will such classification comport with the division of the production conditions underlying the existing cost system? What benefits can be looked for by segregating expenses and measuring activities in terms of classes of products, as against individual items as in (a)?

(c) Groups of Products Within Classes.

42. What sub-divisions of the main classes of products will be practicable where the products of the factory make up an extensive price list? Can provision for ad hoc analysis be made in designing the general scheme for the Selling and Distribution cost accounts?

(d) Sales Volume.

43. To what extent would it be salutary or practical to line up the various Selling and Distribution expenses with Sales Volume? How far would it be necessary to translate the cash measurement of Sales Volume into terms of products or packages? Is it possible to utilise the cash computation of Sales Volume as a unit of cost?

(e) Territorial Expenditure.

44. What type of organization is followed with regard to salesmen? How can the objects of the Sales plan in this direction be aided by cost figures? Is expenditure to be controlled by territorial units? Are there any results which are directly related to measureable geographical, ethno-

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graphical or sociological factors of the divisions of the markets? What alternative units to geographical divisions can be discovered for relating promotion, distribution and results?

(f) Individual Salesmen.

45. How far are the markets served divided on a salesman basis? To what extent should standards be used in inter-salesman comparisons? How can local conditions be brought into the system as modifying factors in relating effort and expenditure to results where the salesman's territory is indicated as a unit for cost control? Where more than one salesman covers the same territory for different purposes, what steps can be taken to differentiate between the units of measurement to be used?

(g) Combined Sales-forces.

46. Where sales-forces include specialists for propaganda purposes, how can the effect of this activity be brought into the cost figures? Is it feasible to "load" units of cost for this purpose when using the figures for comparison or control? In cases where services of salesmen for associated organizations are pooled in overlapping territories, is it possible to assess the losses or gains of efficiency through this factor by the cost system? Does the mail order system enter into the question of sales units? Is it possible to measure the effects of mailing propaganda by means of cost data? Can a system be devised which will isolate the expenses incurred on specific promotion efforts, and at the same time co-relate them with results which can be used with safety by Management for control purposes and formulation of policy?

47. An exploration of the various aspects referred to under the foregoing heads will provide for the basic requirements of individual businesses according to size and type.

* * * *

The next stage to be entered upon is the study of System, Type and Method for the practical solution of the problem.

III. SELECTION OF SYSTEM, TYPE AND METHOD.

(a) Limiting Detail and Volume of Work.

48. What are the limits for expenditure on the system set out by the size of the organization and the nature of the gross and net profit margins? How far will it be possible to reach effective control without overbalancing the system from the aspect of detail and volume of work? Having reached conclusions on abstract units of cost or centres for cost control, can they be utilized for practical purposes without absurdity?

(b) Extent of Analysis.

49. How will you design your system so as to provide sufficient elasticity to permit of extensive or intensive ad hoc enquiry within the expense groupings used as a minimum for launching the scheme? In what directions and to what extent will the introduction of mechanical accounting provide the results without increasing net expenditure on the process? How can you best utilize the essential accounting figures for expenditure analysis?

(c) Accuracy of Allocation.

50. What proportion of the accounting totals is capable of complete

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accuracy of allocation to the cost units or control centres? How much practical use can be made of arbitrary apportionment in cases where direct allocation is out of the question? Will combinations of "direct allocation" and "arbitrary apportionment" vitiate the control or the desired comparative results?

(d) Linking with Production Cost.

51. How will the process of cost accounting connect with the Production cost-finding methods in use at the factory? Is it possible to plan the "lay-out" of the cost system so that "classes" and "sub groups" can be linked up directly with their opposite numbers in the production scheme? Will the system permit of the additions and deletions from the sales list classification necessary to keep in harmony with changes in production conditions?

(e) Connecting with Selling Price.

52. Assuming that the general link up with production cost is achieved how will the process of profit margin estimation be tackled? Is it possible to achieve selling and distribution cost control and from the same data calculate net profits for individual lines? If it is not possible, how best can the available data be made to protect the ultimate net profit from the inroads of unprofitable lines?

IV. and V. ANALYZING DISTRIBUTION AND SELLING EXPENDITURE.

(a) Isolating Fixed Charges.

53. What expenses should rightly be treated as fixed? In differentiating between fixed and variable charges, is it feasible to treat all fixed charges as block expenditure without nullifying control or upsetting comparisons? What is the most suitable analysis structure to adopt in order to carry out the objects of the installation? What system of coding can be arranged to provide elasticity for ad hoc investigation? Do conditions indicate the advisability of or necessity for utilizing any special type of mechanisation in designing the measures to be used?

(b) Control of Variable Charges.

54. When segregating variable expenses can a link be established with the relative variables in the factory? Does the type of business indicate any special direction in which the control should be applied, e.g., seasonal trade, radius of salesman, storage period, delivery conditions, etc.?

(c) Setting up Standards.

55. When setting up standards how can the fixed and variable factors be included so as to simplify comparisons between varying sales volumes? Is it possible to set up standards for all functions, or is it necessary to limit standard comparison to expenditure of certain types?

VI. STATISTICAL RECORDS OF SALES.

(a) Territorial Fields.

56. What methods must be followed to line up the cost accounts with territorial results? Does the type of business lend itself to total or partial solution of the problem by means of purely statistical cost records, as against the normal methods of self-balancing cost accounts?

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(b) Individual Salesman's Results.

57. What measurement of individual results is needed for adequate control and comparison, other than sales totals, commission accounts, etc.? Is it desirable to attempt isolation of the results of impersonal promotion work from personal salesmanship? Will purely statistical data prove sufficient for the Sales Manager in checking up on the representatives in the field?

(c) Relating Sales Promotion to Results.

58. What data can be obtained to provide a check on the results of publicity campaigns? What bases at present in use for this purpose can be employed in the cost system? Does the expenditure on advertising warrant complete cost accounts for all the sales-aid schemes? If continuous promotion schemes are the accepted policy of the organization, can the necessary control be attained by treating this expenditure as normal and including it in the standards set?

VII. COST DATA AND THE SELLING PRICE.

(a) Price List Items.

59. Where existing catalogue prices have been based on production cost, how will the system connect selling and distribution cost with producer or factory cost for purposes of profit margin control? Is it practicable to work out standard profit margins for application to varying divisions of the sales list? How far is it safe or satisfactory to use "percentage" as a measure for profit margin? If the ascertainment of real selling and distribution costs produces results at serious odds with the assumed position prior to the production of these figures, what means can be adopted to overcome the difficulty of reconciling results, without losing the benefit of the cost system?

(b) Special Contracts.

60. What provision is necessary to assure the economic fixing of prices to cover contracts which may be for specially produced lines, or for specially packed list lines? To meet keen competition, what minimum data must be made available to ensure economic and absolutely reliable competitive selling offers?

(c) Bonus Allowances.

61. The practice followed in certain trades of offering variable bonuses in diverse forms in exchange for advertising services on the part of the customer, calls for careful selling and distribution cost analysis. How can the accounts be made to produce the information necessary to the sound regulation of this type of business? Are the sales of bonus quantities to be regarded as additional sales at reduced prices or additions to the advertising expenditure against specific products?

(d) Allowances to Depot-holders.

62. Depots, whether owned by a parent organization, or whether maintained through agents, call for cost control particularly in regard to distribution cost and discount allowances. What degree of comparison as between depot, agency, or consignment sales is obtainable through the cost accounts? How may the cost figures institute standards for use in

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connection with the special discounts allowed to agents acting as depot-holders?

VIII. CONTROL OF PROFIT MARGINS.

- (a) **Determination by Individual Products.**
- (b) **Averaging by Classes.**
- (c) **Averaging by Groups.**
- (d) **Control of Loss in "Service" Items.**

63. Where organizations are marketing a widely diverse list of products and packages, the analysis of the cost data for purposes of profit margin control is a study in itself. The conclusions reached under previous headings will combine to indicate the precise technique to be worked out to cover the first three heads. Special study of the measures necessary in the "sprat to catch a mackerel" section of the business is vital in certain trades. Unless control can be established in some direct form, profits earned in one direction are quickly dissipated in others. What arrangements therefore need to be studied by which the profit margins under (a), (b) and (c), and the losses under (d) can be brought under systematic control?

IX. THE COST OF EXPORTED SALES.

- (a) **Isolation of Fixed Charges.**

64. The extent to which this is necessary must be studied in connection with the sales policy; see No. I (b).

- (b) **Control of Import Duty Payments.**

65. How can the profits of foreign market sales be safeguarded against impositions of import duties?

- (c) **Currency Fluctuations.**

66. Where export sales are effected in foreign currencies, what machinery can be devised to protect the profits against exchange fluctuations?

- (d) **Alternative Packing Methods.**

- (e) **Alternative Routing Costs.**

67. Expenditure in connection with packing and routing is higher in proportion for export sales than for the home market. The system should therefore provide for continuous control of this expenditure. How will the scheme provide means for investigating standard case contents, various case-filling and shock-absorbing materials, tins, drums, cartons, etc., etc.? How can the effects of these methods on freight, duties, insurance or breakage be brought within the scope of the cost figures?

- (f) **Competition from Home Market Merchant Supplies.**

68. The maintenance of currency selling prices involves the compilation of cost records which protect against under-selling by middle-men, based in the Home market, or operating through purchasing agents in one or other of the markets in which direct sales are affected by the manufacturer. What cost records must be provided in order to control this aspect of the export selling and distribution problem?

X. FOREIGN ASSEMBLY AND/OR MANUFACTURE.

- (a) **Comparison with Home Production Cost.**

69. Imposition of prohibitive import duties, and establishment of

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import quotas necessitate calculation of selling and distribution profits for alternative methods of manufacture. How far is the question best dealt with by ad hoc enquiry, when the changes in the situation occur? If ad hoc enquiry is the suitable method, to what extent must routine cost accounting be installed to provide the basis for sound ad hoc cost analysis?

(b) Control of Distribution Expenses.

70. Where assembly, part manufacture, or complete production is carried out as a subsidiary operation in foreign markets, how can the routine be made to produce a reasonably accurate comparison of distribution expenses with the alternative methods of supplying the market? When operations are not continuous, how can the analysis and allocation of fixed and variable overhead expenditure be linked up with the overall cost position? How far does the type of business permit of individual product costing in these conditions?

(c) Exchange Losses.

71. What machinery must be made available to safeguard against exchange losses if sales are effected in foreign currencies? How is fluctuation of exchange to be linked up with the aspects of the problem in (a) and (b) above?

(d) Depreciation and Obsolescence.

72. How far can losses due to obsolescence and depreciation in stocks of raw materials, partly manufactured goods, and completed products be guarded against? To what extent, if any, can the cost accounts be made to bring light to bear on this source of profit wastage?

XI. STATISTICAL TREATMENT OF NET PROFIT FIGURES.

73. The logical outcome of the ideal system of selling and distribution cost is a complete breaking down of the total net profits. The question of the extent to which the cost accounts should produce analytical net profit statements is one for close study. Analysis would be dictated by the needs of the business as determined under various heads earlier on, but the final decision will have to determine whether to aim at analysis under—

- (a) Markets;
- (b) Products, groups and classes;
- (c) Combinations of (a) and (b).

The fullest examination can only become a practical proposition by the use of mechanical accounting methods—unless the business is concerned with only one or two products—and the study of this phase of the problem is unlikely to produce useful results unless the whole system of accounting is mechanised on the lines of one or other of the punched card sorting and tabulating systems now available.

XII. CONTROL OF SELLING AND DISTRIBUTION OPERATIONS.

74. Following the successful installation or design of cost accounting methods for the selling and distribution functions, actual control would be exerted through the Management by means of:—

- (a) Budgets, i.e., allowances and estimates based on markets, groups of products, territories, etc.
- (b) Standards, i.e., built up standards of performance for comparison with actual results for the various functions included in the

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subject, with load factors to covers varying conditions, and sales volumes.

75. The extent and feasibility of this control is in a large degree the measure of the efficacy of the cost system. Study at this point will be in the nature of drawing together the threads and consolidating results of investigations and experiments.

* * * *

XIII. UTILIZING THE COST FIGURES.

76. At this stage the potential co-operation of Management is the real focus of study. The following heads are self-explanatory.

(a) **Launching new Products.**

(b) **Policy Modification.**

- (1) Territorial or local;
- (2) Domestic or internal;
- (3) Branch;
- (4) World-wide.

(c) **Eliminating Uneconomic Factors.**

- (1) Products;
- (2) Functions;
- (3) Markets.

77. The extent to which the type and size of the organization provides opportunity for the economic use of selling and distribution cost accounting will only be ascertainable after a detailed study of the problem in all its aspects. It is clear, however, that provided the system can be installed and maintained, the use to which the results can be put depends only on the acumen of the Management and the capability and tact of the Cost Accountant. It should be for the Management to demand, but concurrently should the Cost Accountant make it his business to anticipate, and—within appropriate limits—shape, the increasing demands which Management will surely make when results follow from satisfaction of earlier requirements.

* * * *

78. So much for the actual stages in which the study of our subject can be attempted. Now for the method which the Council suggest should be followed. During the ensuing year it is hoped that all members and students of the Institute will set aside some time for consideration of the various aspects of this subject which raise themselves under Headings I to V. Discussion in Chamber Meetings in the Branches, and by Students' Societies will provide the opportunities for pooling and exchanging the information and ideas which should result from individual experience, theoretical study and practical experiment.

79. Each Branch will develop its local approach to the problem which will be coloured by the nature of the preponderating local industries. At our next Conference the Branches will have the opportunity of putting up contributions in the form of agreed or majority views which will provide the material for a frank national discussion at the Saturday morning session.

80. One technical session of the 1938 Conference will be devoted to a more detailed exploration of the next section of the subject—the ground

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to be covered will depend largely on the progress made during the coming year—and this will in turn provide the material for a further decentralised study, culminating in a national recapitulation and ironing out at the 1939 Conference.

81. Let it be emphasized that we all owe a clear duty to our fellow-members, with whom we share the responsibility for the life, standing, and repute of the Institute. Those who are privileged to attend this Conference should consider themselves bound in honour to take their part in bringing nearer the solution of this great and admittedly difficult problem, by using all the knowledge and experience they possess, or are able to gather, here and elsewhere, for the purpose of aiding, guiding, and expediting the study of this subject in their own areas during the coming year, to the end that at the succeeding National Conference we may find available a body of considered opinion, which will provide sound conclusions on at least the first division of our task.

82. No one can say with certainty how much of the economic welfare of the whole world depends on greater knowledge of the inefficiencies in selling and distributing the products of our factories. If we prove ourselves able to provide sound lines on which this phase of industrial expenditure can be controlled, examined and increased in effectiveness, we shall have deserved well of Industry, of the State and of the remainder of the mercantile world.

83. Management will not be slow to accept the fruits of our labours—of that I am convinced. Management in the past has proved rather hard-headed than hard-hearted, and the day that we find ourselves satisfied that we can “deliver the goods” in this division of accounting our material reward will not lag far behind that spiritual satisfaction expressed in the old tag *Finis coronat opus*.

84. The field we have surveyed is fertile and at the moment vacant; we possess all the implements needed, or we have the materials with which to fashion our tools; let us see to it that we produce fruits which Industrial Management will find it profitable to garner.

The Valuation of Inventory

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[The following text of a report to the council of the American Institute of Accountants by the special committee on inventories is published here because of its timely interest.]

In connection with the appointment of this committee, the president, at the beginning of the current fiscal year expressed the desire that the committee, having previously concerned itself with the discussion of methods of valuation of oil inventories, now turn its attention to inventory problems in other industries. The current activities of the committee in this respect have not followed the form or scope of its deliberations with the representatives of the American Petroleum Institute, in the prior years; it has, however, during the year participated in discussions on the sub-

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ject of the "last-in, first-out" method, through the attendance of its chairman at informal conferences held by un-official groups representative of the non-ferrous metals and leather industries interested, not only in the adoption of the method under discussion for corporate reporting purposes, but also in efforts to have the Internal Revenue Bureau approve such method for the computation of taxable income. There is, however, nothing for final reporting by the committee in this connection at the present time.

Addressing itself to inventory considerations of a more general nature, the committee would like to present, in the following, certain observations and recommendations having to do with matters in which accounting practice at the present time is not uniform. In doing so, it is not the thought of the committee to advocate the desirability of an inexorable standardization of all accounting practices, but rather that it is desirable, where divergent practices are concerned, to have dependable and current information about the relative prevalence of such divergent practices, particularly in view of the emphasis laid today upon adherence to "accepted accounting principles."

The "cost, or market, if lower" concept in the valuation of inventories—whether to be regarded as a principle or a convention—is at all events a general rule. As a matter of fact, it may well be viewed as "the" rule for inventory valuation, broad enough to cover such variants as the "last-in, first-out" or even the "base-stock" methods, if one chooses to regard those methods as in effect being merely alternative considerations of "cost;" as to market, those methods, logically applied, might require a write-down when the market is lower than such "alternative costs," though the very intent of those methods is, of course, to have such "alternative costs" on so conservative a basis that ordinarily there should be no occasion to consider the necessity of a market write-down within the period of the normal economic cycle.

It is not the purpose of this report to deal with "cost" (or its variants) as one of the factors of this rule, but only certain considerations relating to the "market" factor, as to which there exist certain divergencies of practice which on occasion lead to misunderstandings.

One of these concerns the **meaning** of "market." In the case of a manufacturing concern, there is the market that relates to the raw materials for manufacture and the market that relates to the finished product—the market in which the concern buys, and that in which it sells. As to the raw material stock on hand, there should, of course, be no occasion for divergence, but when it comes to finished product, there exists a body of opinion that relates the cost of this part of the inventory to the selling market without, however, also considering the "buying market," which latter may be better termed "reproductive cost." A full recognition of market decline, of course, in the case of finished products, would entail consideration both of selling market (with due allowances for marketing expenses) and the raw material buying market. In frequent instances, cost, while below selling market, will be in excess of "reproductive cost." Such reproductive cost would, of course, extend to work in process, as well

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as finished products, and would include not only the material content, but such declines in the labor and overhead elements of cost as would be due to wage reductions, etc.

Two other practice divergencies relate to the **application** of the market differential, or the amount by which cost may exceed market. One of these relates to the practice of carrying, or treating, such differential as an adjustable reserve, and the other concerns the question of whether the differential for adjustment should be the net amount of excess of cost over market or the gross aggregate of such excess amounts for all individual items where cost is higher, without effect being given to the contrary situation in the case of individual items where cost is less than market.

The first of these two concerns those instances in practice (which, while probably representing a minority viewpoint, may be well sustained by logical reasoning) where, instead of actually writing down items from cost to market, in the inventories of such items, the market differential is carried, or treated, as a reserve (the balance-sheet effect being identical for both, at the beginning.) The divergent effect is experienced subsequently, upon a partial or complete market recovery; under the "reserve" method the amount of the differential would be adjusted (through current profit and loss) to whatever the amount of the new differential at the subsequent date would be, whereas under the usual method of a direct scaling down of the items as inventoried, from cost to market, there would be no recoupment of any such market recovery until, of course, the items in question were sold. Under the latter, in other words, the inventoried amount at the beginning of the subsequent period would constitute "cost" for that period, when as a matter of fact it never was cost at all, but market at the end of the preceding period. Manifestly, this divergence in practice relates only to those industries in which substantial amounts of certain inventory items are carried in inventory over a prolonged period.

The second of the two divergencies relates to a question that harks back to a fundamental divergency in thought as to what the "cost or market, if lower" convention aims to accomplish, as well as to a needed—and not yet supplied—clarification of the accounting postulate concerning realized and unrealized gains and losses. It is of interest to recall that **The Accountant**, of London, a few years ago expressed surprise on learning that in the United States the question had not been settled as to whether the "gross" or the "net" market differential properly reflected the effectuation of the "cost or market, if lower" convention—indicating that practice in Great Britain excluded consideration of the "net" alternative. It is hardly to be expected, however, that any arbitrary solution will be the final answer to a question where "much may be said on both sides."

Another moot matter relates to what nature of things in the inventory, under the "cost or market, if lower" convention fall under the requirement of the mark-down from cost to market. This same moot point brings up, likewise, the question as to whether or not sound accounting practice would permit the inclusion of certain items in inventories, as a component item of current assets, as against an alternative balance-sheet treatment of such items under such other captions as fixed assets or deferred charges. This question, which concerns the group of items broadly

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denominated as "supplies" (including small tools and equipment parts), as distinguished from direct materials, has been given renewed recent interest by reason of the position taken by the Bureau of Internal Revenue that the required market devaluation does not extend to such items.

A study of financial statements as published does not bring any answer to the query with regard to the extent that one or another of these divergent practices prevails; the condensation generally followed in the grouping of balance-sheet items and the brevity of pertinent descriptive matter in such published financial statements permit of no determination of the answers from that source.

It is the thought of our committee that a clarification of the existing situation in respect of the extent of practice divergency in these and other matters would be desirable, and we should like to submit our recommendation to the council that the desired information be obtained through a questionnaire canvass of members of the Institute. It is not our thought that these inventory questions necessarily be separately so covered, but if any questionnaire canvass should be in contemplation also on technical matters under consideration by other committees, these inventory questions could well be so covered.

In such a questionnaire, another point relating to inventories might well be covered—the extent of work undertaken by accountants in their practice to establish the correctness of inventoried quantities. This query relates both to practice methods—test checks of quantities, attendance or observance, or general supervision of inventory taking, as well as reliance on certificates of officials—and also to the qualifications, if any, in respect of balance-sheet certification, covering such varying situations. No complete answer to this query is possible, either, merely from a study of published reports.

